

Message Text

LIMITED OFFICIAL USE

PAGE 01 BRASIL 06319 01 OF 04 191940Z

54

ACTION ARA-10

INFO OCT-01 ISO-00 EUR-12 IO-13 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 AGR-05

INT-05 ERDA-05 FEA-01 /094 W
----- 065795

R 191900Z JUL 76

FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 6880
INFO USMISSION OECD PARIS
USMISSION GENEVA
USDEL MTN GENEVA UNN
AMEMBASSY BUENOS AIRES
AMEMBASSY ASUNCION
AMEMBASSY SANTIAGO
AMEMBASSY LIMA
AMEMBASSY LA PAZ
AMEMBASSY BOGOTA
AMEMBASSY CARACAS
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SECTION 1 OF 4 BRASILIA 6319

E.O. 11652: N/A

TAGS: ECON, EFIN, EAGR, EIND, BR

SUBJ: THE BRAZILIAN ECONOMY AT MID-YEAR

1. SUMMARY. THE BRAZILIAN ECONOMY AT MID-YEAR
CONTINUES ITS HIGH RATE OF GROWTH, BUT IT STILL
FACES THE TWIN PROBLEMS OF HIGH INFLATION AND A
LARGE CURRENT ACCOUNT DEFICIT. THE GEISEL
ADMINISTRATION SEEMS DETERMINED TO DEAL WITH BOTH
PROBLEMS, MAINLY THROUGH STIFF IMPORT RESTRICTIONS
AND A TIGHTER AND MORE COORDINATED MONEY AND CREDIT
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BRASIL 06319 01 OF 04 191940Z

POLICY. WITH THE DRYING UP OF LIQUIDITY, THE

ECONOMY IS EXPECTED TO SLOW DOWN IN THE SECOND-HALF. GROWTH FOR THE ENTIRE YEAR, HOWEVER, SHOULD NOT FALL BELOW 5-6 PERCENT. DURING THE FIRST-HALF, INDUSTRIAL OUTPUT REPORTEDLY GREW BY MORE THAN 10 PERCENT. AGRICULTURE ALSO HAD A GOOD FIRST-HALF, BUOYED BY RECORD CROPS AND RISING PRICES FOR MANY IMPORTANT PRODUCTS. OVERALL INVESTMENT SEEMS TO BE OFF SLIGHTLY, BUT GOOD PROFITS AND HIGH EMPLOYMENT APPEAR TO PREVAIL. ON THE FOREIGN TRADE FRONT, THERE ARE SIGNS OF A PICK UP IN EXPORTS BUT, EVEN WITH THE EXPECTED IMPROVEMENT IN THE TRADE ACCOUNT IN THE SECOND-HALF, WE FORECAST THAT AT BEST THE DECLINE IN RESERVES CAN BE ARRESTED, GIVEN THE LIKELIHOOD OF A DROP IN FOREIGN BORROWING IN THE SECOND-HALF. PUBLIC AND BUSINESS CONFIDENCE IN THE GEISEL ADMINISTRATION SEEMED TO SLIP IN THE FIRST-HALF, BUT RECENT MONETARY POLICY DECISIONS HAVE HELPED BOLSTER CONFIDENCE. BRAZIL'S LONG-TERM POTENTIAL IS GOOD, BUT CERTAIN ECONOMIC POLICY REFORMS WOULD HELP RETURN BRAZIL TO HIGHER SUSTAINABLE RATES OF GROWTH. END SUMMARY.

2. OVERALL PERFORMANCE. GOOD PERFORMANCE BY INDUSTRY AND AGRICULTURE HAVE LED THE WAY TO A 10.6 PERCENT INCREASE IN GDP OVER THE PAST YEAR, ACCORDING TO MINISTER OF FINANCE SIMONSEN. THE HIGH RATE OF DEMAND GROWTH SEEMS UNSUSTAINABLE, HOWEVER, BECAUSE IT HAS SPURRED TOO MUCH INFLATION -- 40.6 PERCENT IN THE PAST TWELVE MONTHS-- WHICH THE GEISEL ADMINISTRATION APPEARS DETERMINED TO REDUCE THROUGH DEFLATIONARY MEASURES. IF TIGHT CREDIT POLICIES ARE MAINTAINED IN THE THIRD-QUARTER, DEMAND AND PRODUCTION IN THE SECOND-HALF ARE LIKELY TO DECLINE. BESIDES TIGHT CREDIT, OTHER DEMAND-DAMPENING INFLUENCES EXPECTED IN THE SECOND-HALF INCLUDE: SLOWER GROWTH IN CONSUMER DEMAND, BASED NOT ONLY ON TIGHTER CONSUMER CREDIT AND SOME DECLINES IN HOUSEHOLD REAL DISPOSABLE INCOME RESULTING FROM INFLATION AND FROM THE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BRASIL 06319 01 OF 04 191940Z

RECENT TREND OF LOWER GOVERNMENT-APPROVED INCREASES IN REAL WAGES; A PROBABLE FURTHER DECLINE IN THE ANTICIPATORY CONSUMER BUYING THAT WAS ESPECIALLY PROMINENT IN THE FIRST-QUARTER (FOR EXAMPLE, RETAINL SALES IN RIO IN JANUARY AND FEBRUARY WERE UP BY MORE THAN 50 PERCENT, BUT THE FIRST-HALF INCREASE WAS A MORE MODEST 9.6 PERCENT); AND THE GOB'S PLEDGE TO ELIMINATE ITS SMALL GUDGET DEFICIT (ABOUT 200 MILLION DOLLARS

THROUGH MAY) BY YEAR-END. ON THE AGGREGATE SUPPLY SIDE, GREATER MATERIALS SHORTAGES CAUSED BY THE FULL IMPACT OF LAST DECEMBER'S IMPORT RESTRICTIONS COULD HAMPER SECOND-HALF ACTIVITY. EVEN CONSIDERING THESE NEGATIVE FACTORS, HOWEVER, GROWTH FOR THE YEAR PROBABLY WILL NOT FALL BELOW 5-6 PERCENT. A 6 PERCENT GROWTH RATE WOULD YIELD A 1976 GDP OF ABOUT 105 BILLION DOLLARS, AND A PER CAPITA INCOME OF ABOUT 960 DOLLARS BASED ON A POPULATION OF 110 MILLION.

3. INDUSTRY. THE MANUFACTURING SECTOR, OPERATING AT HIGH CAPACITY, INCREASED OUTPUT AT A HIGH RATE THROUGH MAY WHEN COMPARED WITH THE FIRST FIVE MONTHS OF 1975. THE SECTORAL PATTERN OF THE INCREASES REFLECTS THE GOVERNMENT'S IMPORT SUBSTITUTION PRIORITIES: CAPITAL GOODS OUTPUT INCREASED BY 15 PERCENT, INTERMEDIATE GOODS BY 13 PERCENT, AND CONSUMER GOODS BY 9 PERCENT. IMPORTANT DEVIATIONS FROM THIS SECTORAL PATTERN INCLUDED: PLASTICS, UP BY MORE THAN 25 PERCENT; TEXTILES UP BY MORE THAN 15 PERCENT; AND FOOD PROCESSING, PROBABLY DOWN. ONE OFTEN-USED PROXY FOR INDUSTRIAL ACTIVITY, THE CONSUMPTION OF ELECTRICITY, SEEMS TO CONFIRM THE GOOD PERFORMANCE -- IN RIO DE JANEIRO AND SAO PAULO IT INCREASED BY 11 PERCENT IN THE FIRST-HALF, AND IN THE STATE OF MINAS GERAIS, BY 14 PERCENT. ELECTRICITY CONSUMPTION SEEMS TO HAVE GROWN SIGNIFICANTLY IN OTHER REGIONS AS WELL, INDICATING THAT THESE REGIONS PROBABLY SHARED IN THE HIGH GROWTH OF INDUSTRIAL OUTPUT.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BRASIL 06319 02 OF 04 192007Z

54

ACTION ARA-10

INFO OCT-01 EUR-12 IO-13 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 AGR-05

INT-05 ERDA-05 FEA-01 /094 W

----- 066098

R 191900Z JUL 76
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 6881
INFO USMISSION OECD PARIS
USMISSION GENEVA
USDEL MTN GENEVA UNN
AMEMBASSY BUENOS AIRES
AMEMBASSY ASUNCION
AMEMBASSY SANTIAGO
AMEMBASSY LIMA
AMEMBASSY LA PAZ
AMEMBASSY BOGOTA
AMEMBASSY CARACAS
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SECTION 2 OF 4 BRASILIA 6319

4. OUTPUT DATA ARE AVAILABLE FOR ONLY A FEW KEY INDUSTRIES. HIGHER GASOLINE PRICES SEEM TO HAVE HELPED SLOW AUTOMOBILE GROWTH: IN THE FIRST-HALF SALES AND OUTPUT INCREASED BY 3.5 PERCENT AND 3.2 PERCENT, RESPECTIVELY (480,000 UNITS WERE PRODUCED). STEEL OUTPUT IN THE FIRST-HALF WAS UP BY 9.2 PERCENT, TO 4.4 MILLION TONS, BUT THIS WAS BELOW EXPECTATIONS. A GAIN IS EXPECTED IN THE SECOND-HALF, BUT DELAYS IN THE EXPANSION OF STEEL-MAKING CAPACITY COULD HAMPER INCREASES. MACHINERY OUTPUT IN THE FIRST-HALF
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BRASIL 06319 02 OF 04 192007Z

REPORTEDLY INCREASED BY 19 PERCENT AS CAPITAL GOODS PRODUCERS TRIED TO CASH IN ON HIGHER DEMAND FOR THEIR PRODUCTS AS SUBSTITUTES FOR IMPORTED CAPITAL GOODS. UNCONFIRMED REPORTS CLAIM THAT CEMENT PRODUCTION INCREASED BY 7 PERCENT IN THE FIRST HALF, AND TIRE PRODUCTION BY 7-8 PERCENT. INDUSTRIAL GROWTH COULD HAVE TAPERED OFF IN SOME INDUSTRIES IN THE LAST ONE OR TWO MONTHS; A DROP IN ELECTRICITY CONSUMPTION IN RIO DE JANEIRO AND SAO PAULO SUPPORTS THIS VIEW, BUT OTHER EVIDENCE IS NOT CONCLUSIVE. PROFITS GENERALLY SEEM TO BE GOOD, AND EMPLOYMENT APPARENTLY REMAINS HIGH. EMPLOYMENT IN THE FAST-GROWING MACHILARYKNACISTRY, FOR EXAMPLE, REPORTEDLY INCREASED BY 10 PERCENT IN THE FIRST-HALF. INVESTMENT SEEMED TO BE OFF SLIGHTLY IN THE FIRST-HALF, PARTLY BECAUSE OF BURAUCRATIC DELAYS IN GRANTP

J T

EBANND#

INCENTIVES TO NEW PROJECTS. A RECENT SPATE OF INDUSTRIAL DEVELOPMENT COUNCIL (CDI) APPROVALS SHOULD INFLUENCE INVESTMENT POSITIVELY IN THE SECOND-HALF. ON THE OTHER HAND, TIGHTER CREDIT AND LESS OPTIMISTIC EXPECTATIONS FOR THE NEAR FUTURE MIGHT WELL DAMPEN INVESTOR ENTHUSIASM IN THE COMING MONTHS.

5. MINERALS AND ENERGY. PRODUCTION BY THE MINERALS AND ENERGY SECTORS IS A WEAK SPOT IN THE ECONOMY. OUTPUT OF IRON ORE, BRAZIL'S MOST IMPORTANT MINERAL, DROPPED IN THE FIRST FOUR MONTHS OF 1976. TURNING TO ENERGY, PETROLEUM PRODUCTION THROUGH MAY DECLINED TO 4.2 MILLION CUBIC METERS, OR 2.4 PERCENT BELOW THE SAME PERIOD IN 1975. PRODUCTION IS EXPECTED TO RISE MODESTLY IN THE SECOND-HALF, PERHAPS REACHING 185,000 BPD. PETROLEUM IMPORTS, IN THE FIRST-HALF, REFLECTING THE GOB'S EFFORTS TO STOCKPILE IN ADVANCE OF AN OPEC PRICE INCREASE, WERE 126 MILLION BARRELS (1.67 BILLION DOLLARS), A 15 PERCENT INCREASE BY VOLUME (19PERCENT BY VALUE) OVER THE FIRST-HALF OF LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BRASIL 06319 02 OF 04 192007Z

1975. PETROLEUM INVESTMENT IS INCREASING SUBSTANTIALLY -- PETROBRAS PLANS TO SPEND 345 MILLION DOLLARS ON EXPLORATION THIS YEAR AS PART OF ITS ONE BILLION DOLLAR INVESTMENT PROGRAM. BRAZIL NEEDS TO DO MORE, HOWEVER, AND IT IS COUNTING HEAVILY ON RISK CONTRACTS TO BOOST EXPLORATION IN 1977. MINES AND ENERGY MINISTER UEKI ILLUSTRATED THIS NEED: HE SAID BRAZIL HAS 39 DRILLING PLATFORMS AND IT REQUIRES 200-400. REGARDING NATURAL GAS, THE GOB HAS ANNOUNCED THAT A NEW DISCOVERY SHOULD DOUBLE BRAZIL'S RESERVES.

6. AGRICULTURE. TO DATE, 1976 HAS BEEN A GOOD YEAR FOR AGRICULTURE. RECORD CROPS OF SOYBEANS, CORN AND RICE HAVE BEEN HARVESTED, AND BOTH SUGAR AND WHEAT ARE EXPECTED TO RECOVER FROM LAST YEAR'S DEPRESSED PRODUCTION. THE SOFT SPOTS ARE COFFEE PRODUCTION, WHICH IS DOWN BY ABOUT 60 PERCENT BECAUSE OF LAST YEAR'S FROST (THIS YEAR'S FROST SEASON IS NOT YET OVER), AND COTTON AND EDIBLE BEANS, WHICH ARE ALSO DOWN FROM LAST YEAR. MUCH OF THE NORTHEAST HAS SUFFERED FROM DROUGHT THIS YEAR WITH RESULTING LOSSES TO CORN, BEAN, MANIOC, COTTON AND SISAL PRODUCTION IN THAT

REGION. WITH RISING COMMODIMC

HFIXQZ

P#

AGRICULTURAL EXPORTS ARE MAKING A BETTER THAN
EXPECTED CONTRIBUTION TO BRAZIL'S EXPORT REVENUE.
COFFEE EXPORTS DURING THE FIRST-HALF OF 1976
HAVE BROUGHT IN 85 PERCENT OF THEIR TOTAL IN ALL
OF 1975. EXPORTS OF SOYBEANS AND PRODUCTS,
HELPED BY PRICE INCREASES HAVE REACHED RECORD
LEVELS: EXPORTS THROUGH MAY TOTALLED 500 MILLION
DOLLARS, UP 54 PERCENT FROM THE COMPARABLE PERIOD
IN 1975. THE PRBV# BEEN SO GREAT
THAT IT HAS AROUSED SOME CONCERN ABOUT HIGH PRICES
TO DOMESTIC CONSUMERS. SUGAR AMFTYPVTE#WERE IN
SHORT SUPPLY IN RECENT MONTHS, BUT NOW NEW CROPS
OF BOTH COMMODITIES ARE COMING IN JUST IN TIME
TO CASH IN ON RECENT WORLD PRICE INCREASES.
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 BRASIL 06319 02 OF 04 192007Z

7. CONSTRUCTION. STRONG DEMAND REPORTEDLY
CAUSED A 12.5 PERCENT INCREASE IN CONSTRUCTION
THROUGH MAY. RISING MATERIALS COSTS, SOME
SCARCITIES OF QUALIFIED LABOR, AND EXPECTATIONS
OF HIGHER INFLATION HAVE FORCED UP CONSTRUCTION
COSTS (IN JUNE ALONE THEY ROSE 5.1 PERCENT IN
RIO DE JANEIRO). LOW INCOME HOUSING CONSTRUCTION
MAY HAVE BEEN HURT THZEJZC T.#DELAYS IN CERTAIN
LARGE INFRASTRUCTURE PROJECTS (E.G., TWO RAIL-
ROADS) HAVE HAMPERED THE SECTOR'S EXPANSION.

NOTE BY OCT: #AS RECEIVED. CORRECTED COPY TO FOLLOW.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BRASIL 06319 03 OF 04 192050Z

54

ACTION ARA-10

INFO OCT-01 EUR-12 IO-13 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 AGR-05

ERDA-05 FEA-01 /089 W

----- 066524

R 191900Z JUL 76

FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 6882
INFO USMISSION OECD PARIS
USMISSION GENEVA
USDEL MTN GENEVA UNN
AMEMBASSY BUENOS AIRES
AMEMBASSY ASUNCION
AMEMBASSY SANTIAGO
AMEMBASSY LIMA
AMEMBASSY LA PAZ
AMEMBASSY BOGOTA
AMEMBASSY CARACAS
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SECTION 3 OF 4 BRASILIA 6319

8. MONETARY POLICY. MONETARY POLICY CONTINUES TO CARRY THE BURDEN OF THE GOB'S STABILIZATION EFFORTS. DURING THE FIRST-HALF THE MONETARY AUTHORITIES SOUGHT TO ABSORB PART OF THE LIQUIDITY EXPANSION WHICH TOOK PLACE IN THE SECOND-HALF OF 1975, AND WHICH WAS RESPONSIBLE FOR THE HIGH INFLATION RATES IN THE EARLY MONTHS OF 1976. THIS TIGHT MONETARY POLICY, AS MEASURED BY CASH AND DEMAND DEPOSITS (MI), WAS GENERALLY SUCCESSFUL: BY THE END OF MAY, THE MONEY SUPPLY IN REAL TERMS WAS ABOUT 14.0 PERCENT BELOW THE DECEMBER FIGURE.
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BRASIL 06319 03 OF 04 192050Z

BANK LENDING, HOWEVER, CONTINUED TO SURPASS THE INCREASES FORESEEN IN THE MONETARY BUDGET, A SITUATION WHICH PLAYED HAVOC WITH EFFORTS IN THE FIRST-QUARTER TO TIGHTEN LIQUIDITY. LOANS TO THE PRIVATE SECTOR BY THE BANK OF BRAZIL AND BY PRIVATE COMMERCIAL BANKS ROSE BY 17.6 PERCENT AND 19.0 PERCENT, RESPECTIVELY, DURING THE JANUARY/MAY PERIOD. THE BASE FOR THIS EXPANSION OF BANK CREDIT WAS PROVIDED BY OFFICIAL SOURCES, PRIMARILY BY THE CENTRAL BANK DISCOUNT WINDOW AND BY SPECIAL LINES OF CREDIT MANAGED BY THE BANK OF BRAZIL FOR THE PRIORITY SECTORS OF THE

ECONOMY. (THE LEAKAGES WERE THE BUDGET DEFICIT AND THE PRIOR DEPOSIT). THE DIVERGENCE BETWEEN THE PATTERNS OF MONEY SUPPLY AND BANK CREDIT EXPANSION ROSE FROM THE POLICY-MAKERS' ATTEMPTS TO "FINE TUNE" THE ECONOMY, I.E., TO CONTAIN INFLATION AND REDUCE THE TRADE DEFICIT WITH AT MINIMAL IMPACT ON ECONOMIC GROWTH. THE ATTEMPTS FAILED, CAUSING THE MONETARY AUTHORITIES TO CHANGE THE COURSE OF POLICY IN THE SPRING. ON MARCH 15, THE BASIC DISCOUNT RATE WAS INCREASED FROM 18 PERCENT TO 22 PERCENT. WHEN THIS HIKE FAILED TO REDUCE IN A SIGNIFICANT WAY THE BANKING SYSTEM'S ACCESS TO THE DISCOUNT WINDOW, THE RATE WAS UPPED TO 28 PERCENT (ON MAY 26). IN APRIL, COMPULSORY RESERVE REQUIREMENTS OF THE BANKING SYSTEM WERE ALSO RAISED, FROM 27 TO 33 PERCENT. ACCOMPANYING THESE MEASURE, THE AUTHORITIES (MIN MARCH) ALSO LIFTED INTEREST RATES ON LENDING BY INVESTMENT BANKS AND FINANCE COMPANIES, WHILE COMMERCIAL BANKS (IN APRIL) WERE FREED FROM ANY CEILINGS ON PERSONAL LOANS. AS A RESULT, CREDIT IS BECOMING INCREASINGLY TIGHT, WITH INTEREST RATES REACHING VERY HIGH LEVELS -- EVEN BY BRAZPUIAN STANDARDS. IN THE SPACE OF SEVERAL MONTHS, THE "PRIME RATE" HAS JUMPED BY 8 POINTS TO 44 PERCENT. LAST YEAR THE GEISEL ADMINISTRATION TRIED TO CONTRO MONEY AND CREDIT EXPANSION, BUT RELENTED WHEN LIQUIDITY CRUNCHES EMERGED. THIS YEAR THE ADMINISTRATION SEEMS TO HAVE FIRMER RESOLVE.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BRASIL 06319 03 OF 04 192050Z

10. INFLATION. THE GENERAL PRICE INDEX, THE MEASURE MOST OFTEN USED FOR INTERNAL INFLATION, ROSE BY 22.6 PERCENT THROUGH JUNE, AS AGAINST A RISE OF 12.7 PERCENT DURING THE SAME PERIOD LAST YEAR AND 14.6 PERCENT DURING THE LAST HALF OF 1975. THE MONTHLY INFLATION FIGURES FOR MAY AND JUNE INDICATE SOME SLOWING DOWN. SINCE THE RECENT SURGE OF INFLATION WAS DEMAND-PULL, A TIGHT CREDIT POLICY, IF MAINTAINED IN COMING MONTHS, WILL ABATE FURTHER PRICE INCREASES DURING THE SECOND HALF SO THAT INFLATION FOR THE YEAR MAY BE UNDER 40 PERCENT. BECAUSE OF THE DISTORTIONS CAUSED BY UNEXPECTEDLY HIGH RATES OF INFLATION, EVEN WITH BRAZIL'S INDEXATION, INFLATION CONTROL HAS TAKEN ON A PRIORITY ALMOST EQUAL TO THE BALANCE- OF- PAYMENTS OBJECTIVES.

11. BALANCE OF PAYMENTS. THE BALANCE OF

PAYMENTS CONTINUES TO BE THE NUMBER ONE PROBLEM
FACING POLICY-MAKERS AND WILL REMAIN SO DURING
THE SECOND-HALF OF 1976 AND INTO 1977. BEGINNING
IN JUNE, HOWEVER, THERE WERE INDICATIONS OF AN
IMPROVEMENT ON THE TRADE ACCOUNT. EXPORTS,
WHICH THROUGH MAY LAGGED TOTAL EXPORTS FOR
THE COMPARABLE PERIOD OF LAST YEAR BY 2.5 PERCENT,
WERE BY THE END OF JUNE ROUGHLY 5.0 PERCENT (IN
CURRENT DOLLARS) ABOVE THE FIGURES FOR THE FIRST
HALF OF 1975 (EXCLUDING SUGAR, EXPORTS WERE UP
17 PERCENT THROUGH MAY). IN JUNE EXPORTS
AMOUNTED TO DOLS 1.0 BILLION, AS COMPARED WITH A
MONTHLY AVERAGE OF DOLS 675 MILLION FOR THE FIRST FIVE
MONTHS. WE ARE MORE OPTIMISTIC NOW ABOUT
EXPORTS THAN WE WERE EARLIER THIS YEAR WHEN WE
PREDICTED DOLS 9.0 BILLION FOR THE YEAR. WE PROJECT
THAT TOTAL EXPORTS WILL BE CLOSER TO DOLS 9.5 BILLION
THAN THE DOLS 10.0 BILLION TOUTED RECENTLY BY SOME GOB
POLICY-MAKERS. EVEN THOUGH HIGHER SOYBEAN PRICES,
STRONG COFFEE PRICES, AND THE EXPECTED INCREASES
IN SUGAR EXPORT EARNINGS TRIGGERED OFFICIAL
OPTIMISM, WE DO NOT BELIEVE THAT TOTAL EXPORTS
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 BRASIL 06319 03 OF 04 192050Z

OF IRON ORE AND AGRICULTURAL PRODUCTS CAN EARN
ENOUGH IN THE SECO A-HALF TO PERMIT TOTAL
EX MRTS TO REACH DOLS 10.0 BILLION.
FOR TOTAL EXPORTS TO REACH 10.0 BILLION DOLLARS,
AGRICULTURAL PRODUCTS WOULD HAVE TO EARN DOLS 1.3
BILLION MORE IN THE SECOND-HALF THAN IN THE FIRST.
WE EXPECT TO SEE NOT MUCH MORE THAN HALF THIS
INCREASE.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BRASIL 06319 04 OF 04 192100Z

54
ACTION ARA-10

INFO OCT-01 EUR-12 IO-13 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 AGR-05

INT-05 ERDA-05 FEA-01 /094 W

----- 066664

R 191900Z JUL 76

FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 6883
INFO USMISSION OECD PARIS
USMISSION GENEVA
USDEL MTN GENEVA UNN
AMEMBASSY BUENOS AIRES
AMEMBASSY ASUNCION
AMEMBASSY SANTIAGO
AMEMBASSY LIMA
AMEMBASSY LA PAZ
AMEMBASSY BOGOTA
AMEMBASSY CARACAS
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SECTION 4 OF 4 BRASILIA 6319

12. ON THE IMPORT SIDE, THE FIRST-HALF RESULTS WERE NOT VERY ENCOURAGING; TOTAL IMPORTS, ESTIMATED AT \$5.7 BILLION, WERE ONLY ABOUT 4.0 PERCENT (IN CURRENT DOLLARS) BELOW THE SAME PERIOD OF 1975. SOME FURTHER REDUCTIONS, HOWEVER, ARE EXPECTED IN COMING MONTHS AS THE TIGHT CREDIT POLICY BEGINS TO BITE -- MAKING THE FINANCING OF THE BYERCENT#PRIOR DEPOSIT REQUIREMENT INCREAS-
INGLY DIFFICULT. WE ESTIMATE TOTAL IMPORTS FOR THE YEAR AT \$11.0 BILLION (AS AGAINST \$12.2 BILLION
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BRASIL 06319 04 OF 04 192100Z

IN 1975), LEAVING A TRADE DEFICIT OF \$1.5 BILLION.

13. BASED ON PRESS REPORTS, OFFICIAL RESERVES AT THE END OF JUNE WERE DOWN TO \$3.5 BILLION -- INDICATING THAT THE OVERALL PAYMENTS BALANCE WAS IN DEFICIT BY ABOUT \$500 MILLION. ALTHOUGH THE TRADE ACCOUNT IS EXPECTED TO IMPROVE IN THE SECOND-HALF, CAPITAL INFLOW IS LIKELY TO FALL OFF SLIGHTLY SINCE BRAZIL WILL PROBABLY NOT BE ABLE TO REPEAT THE LARGE PUBLIC SECTOR BORROWING OF THE FIRST-HALF. (TOTAL FIRST-HALF FOREIGN BORROWING WAS 2.3 BILLION DOLLARS AND FOREIGN

INVESTMENT REACHED \$500 MILLION). WE, THEREFORE, EXPECT THAT KIKI ZEYHN RESERVES CAN AT BEST BE ARRESTED BY YEAR-END, LEAVING THEM AT THE END OF 1976 AT ABOUT \$3.5 BILLION.

14. LONG-TERM OUTLOOK. BRAZIL'S LONG-TERM POTENTIAL IS GOOD--BRAZIL HAS HIGH INVESTMENT RATES, AN IMPROVING LABOR SKILL MIX, AN OUTSTANDING MINERALS AND AGRICULTURAL POTENTIAL, EXPANDING INFRASTRUCTURE AND INDUSTRIAL CAPACITY, AN EMPHASIS ON TECHNOLOGY, AND AN ENORMOUS INTERNAL MARKET POTENTIAL. THE MAIN QUESTION IS HOW BEST CAN THE ECONOMY COME THROUGH ITS CURRENT DIFFICULTIES IN A WAY WHICH WILL ENABLE IT TO TAKE FULLEST ADVANTAGE OF ITS GROWTH POTENTIAL. MANY OF THE GEISEL ADMINISTRATION'S POLICY RESPONSES TO THE DIFFICULTIES ARE DISAPPOINTING. RESORT TO ADMINISTRATIVE CONTROLS (INCLUDING IMPORT RESTRICTIONS) OFTEN HAS SUBSTITUTED FOR THE PRICE MECHANISM. FURTHERMORE, POLICIES AT TIMES HAVE APPEARED UNCOORDINATED AND EVEN CONTRADICTORY, PERHAPS REFLECTING AN ATTEMPT TO PURSUE CONTRADICTORY OBJECTIVES (E.G., RAPID GROWTH AND REDUCED CURRENT ACCOUNT DEFICIT), WITH TOO FEW OR INEFFICIENT INSTRUMENTS. WE HAVE REASON TO EXPECT IMPROVED COORDINATION, HOWEVER, AS FINANCE MINISTER SIMONSEN SEEMS TO HAVE BEEN GIVEN MORE AUTHORITY TO MAKE DAY-TO-DAY DECISIONS. WITH RESPECT TO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BRASIL 06319 04 OF 04 192100Z

ADMINISTRATIVE CONTROLS, WE BELIEVE REFORMS MUST BE MADE, SOONER RATHER THAN LATER, IF CURRENT POLICIES ARE NOT TO JEOPARDIZE LONG-RUN CONFIDENCE AND EFFICIENCY OF RESOURCE ALLOCATION. REFORMS SHOULD INCLUDE: (A) REDUCTION IN THE SHARP DISPARITY BETWEEN INTERNAL AND EXTERNAL RELATIVE PRICES, INCLUDING DISPARITIES ARISING FROM THE OVERVALUED EXCHANGE RATE; (B) CONSISTENT MONETARY POLICY THAT SEEKS GRADUALLY TO REDUCE INFLATION; (C) REDUCTION OF THE OFTEN-ARBITRARY RESTRICTIONS, AND BUREAUCRATIC RED TAPE AND CERTAIN TAX AND FINANCIAL INCENTIVES WHICH OFTEN DISTORT RESOURCE ALLOCATION, DELAY INVESTMENTS AND DISRUPT PRODUCTION BY CAUSING INFLATIONARY SHORTAGES OF MATERIALS, ESPECIALLY IMPORTED PRODUCTS. THESE REFORMS WOULD GO A LONG WAY TOWARD ENABLING BRAZIL TO RETURN TO HIGH RATES OF SUSTAINABLE GROWTH (E.G., 7-8 PERCENT), AIDED BY

EXPANDING FOREIGN TRADE AND IMPORTED TECHNOLOGY,
AND BY SUSTAINABLE STABLE INFLOWS OF LONG-TERM
CAPITAL.
CRIMMINS

NOTE BY OCT: #AS RECEIVED.

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INFLATION, ECONOMIC TRENDS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 19 JUL 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BRASIL06319
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760277-0998
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760746/aaaabnuv.tel
Line Count: 607
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 12
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: ONLY
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 21 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 APR 2004 by CunninFX>; APPROVED <21 APR 2004 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: THE BRAZILIAN ECONOMY AT MID-YEAR
TAGS: ECON, EFIN, EAGR, EIND, BR
To: SECSTATE WASHDC OECD PARIS GENEVA MTN GENEVA BUENOS AIRES ASUNCION SANTIAGO LIMA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006